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Highland-Bell

LIMITED

33rd

Annual Report-1968

Annual Meeting

The Annual General Meeting of the Shareholders will be held on Monday, the 28th day of April, 1969 at 11:00 o'clock in the morning (Vancouver time) in the Patricia Room, Hotel Georgia, 801 West Georgia Street, Vancouver, B.C.

Highland-Bell

LIMITED

(Incorporated under the Laws of the Province of British Columbia)

Authorized Capital:

340,000 5% non-cumulative redeemable preferred shares of
\$1.00 par value per share.

1,660,000 common shares of \$1.00 par value per share.

DIRECTORS

KARL J. SPRINGER - - - - -	Toronto, Ont.
R. A. C. DOUGLAS - - - - -	Vancouver, B.C.
F. E. HALL - - - - -	Toronto, Ont.
W. A. McELMOYLE - - - - -	Victoria, B.C.
M. M. O'BRIEN - - - - -	Vancouver, B.C.
R. E. PURVIS - - - - -	Bremerton, Wash.
R. J. SPRINGER - - - - -	Vancouver, B.C.

OFFICERS

KARL J. SPRINGER - - - - -	President
R. J. SPRINGER - - - - -	Executive Vice-President
J. D. MUNROE - - - - -	Secretary-Treasurer

OTHER EXECUTIVES

B. GOETTING - - - - -	Mine Manager
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AUDITORS

PEAT, MARWICK, MITCHELL & CO. - - - - -	Vancouver, B.C.
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SOLICITORS

DOUGLAS, SYMES & BRISSENDEN - - - - -	Vancouver, B.C.
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TRANSFER AGENTS

THE CANADA TRUST COMPANY - - - - -	Vancouver, B.C. and Toronto, Ont.
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BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE - - - - -	Vancouver, B.C. and Penticton, B.C.
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EXECUTIVE OFFICE

SUITE 300 - 999 WEST PENDER STREET, VANCOUVER 1, BRITISH COLUMBIA

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

Your Directors present the Company's thirty-third Annual Report for the year ending December 31st, 1968 including the consolidated Financial Statements with the Auditors' report and the Mine Manager's report.

FINANCIAL:

Consolidated net earnings of \$697,685 (42.7¢ per share) show an increase of \$97,852 compared to the previous year but do not reflect the financial results of the litigation with the Texas Gulf Sulphur Co. Inc. as referred to in the notes to the consolidated Financial Statements.

The decrease by \$2,717,000 in quoted market value of investments is due to the drop in value of Leitch Gold Mines Limited shares resulting from the above litigation.

Dividend and interest income show an increase of around \$93,000 over the preceding year principally from Mattagami Lake Mines' dividends. Your Company now has a good steady income from its mine operations and other sources of revenue which should allow it to maintain a good dividend policy.

MINE OPERATION:

Your Mine Manager reports a higher tonnage of lower-grade ore milled which produced less ounces of silver compared to last year. Because of the higher price for silver, concentrate sales of \$1,318,394 (1967 - \$1,354,550) maintained approximately the same level as the previous year. The long term future of the mine at Beaverville will depend on the results of renewed development of the upper workings which include the old Sally, Bell and Highland Lass Mines which have not been mined since silver sold in the 40¢ to 60¢ bracket many years ago. We have already had some success in the upper levels of the Highland Lass which produced some of the better ore during the year.

EXPLORATION:

Three teams of two men each supported by a Bell G-2 helicopter carried out a prospecting program in the area centered around Smithers, British Columbia. Twelve new mineral discoveries were made in the course of the summers work and a total of 450 claims were staked. Five of the showings have enough promise to merit further work during the 1969 season. Silver, molybdenum and copper were the principal minerals found.

Four properties found previous to 1968 were fully evaluated using geophysics, drilling and/or trenching. Sub-economic values were found on these, but two were interesting enough to warrant holding for possible further development.

Mastodon-Highland Bell Mines Ltd. participated with Leitch Gold Mines Limited in exploration programs in Newfoundland, Nova Scotia, New Brunswick, Quebec and Ontario. Several anomalies which warrant further work during the 1969 season were discovered and mapped.

Mastodon-Highland Bell Mines Ltd. also participated in two prospecting syndicates, the Hansa and the Findathoran Syndicates. The latter, in which Mastodon-Highland Bell Mines Ltd. has a 5½% interest, has found a number of worthwhile prospects in New Brunswick presently being evaluated. The former, in which your Company has a 12½% interest, is investigating anomalous areas held under concession in Newfoundland.

ASSOCIATED COMPANIES — with Percentage Interest Shown in Brackets

BELL MOLYBDENUM MINES LIMITED — (31.96% interest)

No development work was done on this property in 1968. The next stage in development will take large amounts of capital which can be better arranged when the molybdenum market improves.

CARIBOO-BELL COPPER MINES LIMITED — (26.70% interest)

No development work was done on the property last year. Many large mining companies have shown an interest in this property but so far no satisfactory deal has been offered.

This property has very good potential as a low-grade copper open pit operation.

HIGHLAND MERCURY MINES LIMITED — (44.03% interest)

This company holds claims surrounding Cominco's mercury mine at Pinchi Lake, B.C. They are

1967 376 \$599,833

on strike of the formation in which Cominco's orebodies are found and have good potential. No work was done in 1968 but development work is planned for the 1969 season.

NEWFOUNDLAND ZINC MINES LIMITED — (34.31% interest)

An option deal was made with Cominco on these claims by this company whereby Cominco will develop the property and bring it into production if they think such is feasible. Newfoundland Zinc Mines Limited will retain a 48% equity interest.

PINE BELL MINES LIMITED — (28.70% interest)

This company's work in the Pine Point area disclosed nothing of value. The company has about \$116,000 in cash and short term investments (as of December 1968) and is taking advantage of mining participation opportunities.

BURNABY IRON MINES LIMITED — (44.15% interest)

No work was done during 1968.

We regard this property, at present, as a good potential source of high-grade iron concentrates. Diamond drilling has indicated 8,000,000 tons grading 49.5% iron in the form of magnetite with good possibilities for finding more. Since most of the ore is below the sea, underground mining methods must be studied.

Litigation, Claim For Losses

By letter dated December 9, 1968 shareholders were advised in part as follows:

"Chief Justice G. A. Gale of the Supreme Court of Ontario on Friday evening, November 29, 1968, delivered his decision on the litigation between Leitch Gold Mines Limited and Mastodon-Highland Bell Mines Limited, and Texas Gulf Sulphur Company.

In this decision he has dismissed the claim of Leitch Gold Mines Limited and Mastodon-Highland Bell Mines Limited, the plaintiffs, for a declaration that the defendant holds the Kidd Creek Mine as trustee for the plaintiffs. He also dismissed the claim for damages for breach of contract with respect to the mine itself. He does however, award the plaintiffs nominal damages in the amount of \$1.00 in respect of the breach of the contract when the defendant acquired lands other than lands directly involving the mine. He has also directed a reference to the Master at Toronto, if the plaintiffs so wish such a reference, to ascertain the loss, if any, sustained by the plaintiffs as a result of the defendant wrongly withholding survey data and reports and wrongly acquiring lands other than the mine property. He has reserved to himself the question of the costs of the reference.

However, we are advised by our lawyers that, because of the limitations on the powers of an appellate Court to interfere with findings of fact made by a trial Judge, the further heavy expense involved in an appeal would not be justified. Your directors have, therefore, decided not to appeal the judgment".

Naturally, the dismissal of the claim and the limitation on appeal recourses are most disappointing to the directors and to all shareholders.

The decision not to appeal was made after most serious deliberations by the boards of both companies. Since that time management has been pressed by some shareholders to disregard the recommendations of our legal advisers and make application to the Court for an extension of time for bringing an appeal, and if successful to launch an appeal.

In serving the best interests of the Company and fulfilling their responsibility and trust the directors would be irresponsible and unwise to disregard the carefully considered and highly respected opinions of the legal advisers who pleaded the Company's case.

Leitch and Mastodon-Highland Bell have served notice of intention to proceed with the reference before the Master to ascertain their loss by reason of two breaches of the contract by Texas Gulf namely, the wrongful withholding of survey data and wrongfully acquiring lands other than the Kidd Creek property.

The Directors wish to record their appreciation of the contribution to your Company of your Mine Manager and his staff and the administrative employees.

Vancouver, B.C.

April 2, 1969

On behalf of the Board,

K. J. SPRINGER, President.

MINE MANAGER'S REPORT

The President and Directors,
Mastodon-Highland Bell Mines Ltd.
300 - 999 West Pender Street,
Vancouver 1, B.C.

Gentlemen:

The following report outlines the operations at the Mastodon-Highland Bell Mine at Beaverdell, for the year ended December 31, 1968.

A greater proportion of the mine exploration was shifted to the upper workings when it became obvious that the ore zone in the lower mine was weakening along its strike to the east and down the dip.

Plans were also formulated to evaluate ore reserves and to program their development.

SURFACE EXPLORATION:

Bulldozer stripping has uncovered several interesting showings, one of which is a vein on the Highland Lass Claim, designated the Switchback vein. This appears to be a parallel structure to the north of the Lass Veins. Diamond Drilling from the surface and underground has intersected some good values. An adit at the 3,800 foot elevation will be driven to explore this vein.

A similar structure has been found on the surface of the Pueblo Fraction. Underground diamond drilling from the Bell #3 level has cut encouraging values. Access to this vein from the Sally mine is planned.

UPPER WORKINGS:

Mining above No. 2 level of the Lass vein has provided 4,658 tons of ore grading 28 oz. Ag per ton during the year. Production will continue from this area.

The Bell and Beaver workings were made accessible again from the main adit on the Highland Lass Claims. Raising and crosscutting has opened up the lowest level of the Beaver Mine. Stoping narrow high-grade stringers started late in the year.

LOWER MINE:

Most of the old stopes have been re-opened to mine low-grade sections and remnants. Development work has been carried out on all levels, especially in the Eastern area. The 3100 level is nearly mined out. Small faulted blocks are still being picked up on the 3000 level, but hopes for an extension to the east on the 2900 level were not realized.

A winze was sunk in the 2800-E area to 100 vertical feet below the main haulage level for mining ore of better than average grade. This ore will supply the bulk of the mill feed during the present year.

DUMPS:

Lower grade mill feed during weekends was obtained from the dumps of the upper workings. The bulk of the 9,456 tons (averaging 13.22 oz. Ag per ton) from these operations came from the large dump at the main adit on No. 4 level.

Plans are to switch to old mill tailings on weekends after the dump ore has been depleted. A test run of 1,106 tons of tailings was made with satisfactory results and values.

MILL:

The mill operated at its capacity of 120 tons per day, seven days per week, except for normal maintenance, the period of the strike and the Christmas shutdown. A small addition to the mill has been built to house the cone crusher thus eliminating the bucket elevator problems which cut into mill efficiency.

A metallurgical testing program was started late in the year. The objectives are to improve present recoveries and to investigate the economics of milling old tailings.

As will be seen from the accompanying tables, the lower grades now being milled have resulted in fewer concentrate tons produced than last year in spite of increased throughput.

PLANT AND EQUIPMENT:

It was necessary to replace three old portable compressors to assure a reliable supply of compressed air for the upper mine workings.

A new and larger ore bin at the portal of No. 4 adit was constructed to provide more storage for production from the upper workings.

The company is effecting a saving by performing its own underground diamond drilling. To do this two Boyles Sampler Diamond Drills were purchased.

LABOUR RELATIONS:

A new agreement for a period of 28 months was signed with the United Steelworkers of America, after a two weeks strike in September. This resulted in an average overall increase of 6.8% to our wage costs.

EXPLORATION AND DEVELOPMENT:

	1966	1967	1968
Diamond Drilling	24,184 Ft.	24,760 Ft.	28,795 Ft.
Drifting and Cross Cutting	3,407 Ft.	3,511 Ft.	3,426 Ft.
Raising	682 Ft.	905 Ft.	909 Ft.
Winzing	—	102 Ft.	230 Ft.

UNIT COST PER FOOT OF ADVANCE:

Drifting and Cross Cutting	\$27.43	\$29.30	\$29.28
Raising	38.30	30.03	29.77

MILLING:

Ore Milled (Dry Tons)	24,138	34,020	36,413
Concentrates Produced (Dry Tons)			
Jig	194	247	194
Lead	2,879	3,153	2,121
Zinc	521	494	291
	<hr/>	<hr/>	<hr/>
	3,594	3,894	2,606

COSTS PER TON:

Exploration and Development	\$8.05	7.34	7.35
Mining	9.32	7.19	7.46
Milling	7.37	6.30	6.75
Ore Handling and Marketing	5.66	4.63	3.50
	<hr/>	<hr/>	<hr/>
	\$30.40	25.46	25.06

Revenue

Silver	\$ 968,564	\$1,182,511	\$1,224,398
Lead	111,547	94,393	53,884
Zinc	60,020	45,598	21,259
Gold	30,945	26,852	17,332
Cadmium	6,456	5,195	1,521
	<hr/>	<hr/>	<hr/>
Less Freight and Treatment	\$1,117,532	\$1,354,459	\$1,318,394
	120,060	132,054	88,021
Net Revenue	<hr/>	<hr/>	<hr/>
	\$1,057,472	\$1,222,495	\$1,230,373

Production Comparison Statistics

	Dry Tons Milled	Ag Ozs. per Ton	Ag Ozs. Produced	Silver ¢ per oz.	Average Net Price paid by the Smelter	Lead ¢ per lb.	Zinc ¢ per lb.
1964	25,090	32.28	809,819	129.65	10.13	6.97	
1965	23,213	27.92	647,993	129.54	12.18	7.38	
1966	24,138	30.88	745,278	129.96	10.56	6.18	
1967	34,020	20.98	713,911	165.64	9.41	4.90	
1968	36,413	15.45	562,560	217.65	9.03	4.05	

All unit costs were equal to or slightly higher than those of the previous year; however a major reduction in ore handling and marketing costs due to a lower freight rate for the concentrate shipments resulted in an operating cost per ton of \$25.06, slightly less than the previous year's figure of \$25.46 per ton milled.

Ore reserves are estimated to be about one and one-half years supply at the present rate of production. Extensive exploration and development in the upper workings and in the lower mine will be continued and should develop additional ore.

CONCLUSION:

I wish to extend my sincere thanks to the staff and employees for their loyal and efficient service.

The support and guidance of the President, Board of Directors and the Head Office staff are gratefully acknowledged.

Respectfully submitted,

MASTODON-HIGHLAND BELL MINES LTD
Bruno Goetting, Manager.

Beaverdell, B.C.
20th March, 1969

Highland-Bell

LIMITED

and subsidiary company **MASTODON-HIGHLAND BELL MI**

ASSETS

	1968	1967
Current assets:		
Cash including short-term deposits	\$ 480,010	313,637
Accounts receivable:		
Smelter settlements	112,143	209,539
Other	3,566	13,122
	<hr/> 115,709	<hr/> 222,661
Accrued interest receivable	5,148	1,944
Inventory of supplies, at cost	57,806	46,615
Prepaid expenses	3,285	16,308
Refundable deposits	484	525
	<hr/> 662,442	<hr/> 601,690
Special refundable tax	2,837	4,950
Investments:		
Marketable securities, at cost (quoted market value \$5,855,124; 1967 - \$8,673,215)	726,047	721,822
Unquoted securities, at cost amounts written off	17,752	12,753
	<hr/> 743,799	<hr/> 734,575
Buildings, machinery and equipment, at cost	1,055,801	937,583
Less accumulated depreciation	772,853	705,112
	<hr/> 282,948	<hr/> 232,471
Leasehold improvements, at cost less amounts written off	8,239	10,985
Mineral claim and properties:		
Producing mine, at cost	1,719,699	1,719,699
Other, at nominal value	1	1
Option payment on mineral claims	500	—
	<hr/> 1,720,200	<hr/> 1,719,700
Incorporation and organization expenses	3,560	3,560
	<hr/> <hr/> \$3,424,025	<hr/> <hr/> \$3,307,931

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consolidated balance sheet -

December 31, 1968

(With comparative figures for 1967)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
Current liabilities:		
Bank demand loan	\$ 25,000	13,000
Accounts payable and accrued liabilities	55,019	89,574
Mining and income taxes payable	10,132	11,062
Total current liabilities	<u>90,151</u>	<u>113,636</u>
Minority interest	1	1
Shareholders' equity:		
Capital stock:		
5% non-cumulative redeemable preference shares of \$1 par value per share. Authorized 340,000 shares; none outstanding		
Common shares of \$1 par value per share.		
Authorized 1,660,000 shares; issued and fully paid		
1,632,960 shares	1,632,960	1,632,960
Surplus, per accompanying statement	<u>1,700,913</u>	<u>1,561,334</u>
	<u>3,333,873</u>	<u>3,194,294</u>

Approved on behalf of the Board:

K. J. SPRINGER, Director

R. E. PURVIS, Director

\$3,424,025

\$3,307,931

See accompanying notes to consolidated financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated March 14, 1969.

Highland-Bell

LIMITED

and subsidiary company

MASTODON-HIGHLAND BELL MINES LIMITED

consolidated statement of profit and loss

Year ended December 31, 1968 (With comparative figures for 1967)

	1968	1967
Concentrate sales	\$1,318,394	1,354,550
Mining and milling expenses:		
Ore handling and marketing	127,286	157,604
Stoping	271,758	244,638
Exploration and development	267,505	249,762
Mill operating	245,938	214,424
	<hr/> 912,487	<hr/> 866,428
Operating profit	405,907	488,122
Head office and administrative expenses (Note 2)	131,399	117,241
Outside exploration	168,413	257,412
	<hr/> 299,812	<hr/> 374,653
	<hr/> 106,095	<hr/> 113,469
Other income		
Dividends	498,000	418,000
Interest	31,448	18,091
Gain on sale of investments	135,083	134,102
Gain (loss) on disposal of fixed assets	14,417	(7,500)
Miscellaneous	2,017	2,572
	<hr/> 680,965	<hr/> 565,265
Earnings before depreciation, taxes on income and extraordinary items	787,060	678,734
Depreciation	73,484	61,965
	<hr/> 713,576	<hr/> 616,769
Earnings before taxes on income and extraordinary items	713,576	616,769
Taxes on income:		
Currently payable	15,891	10,766
Deferred	24,500	30,000
	<hr/> 40,391	<hr/> 40,766
Earnings before extraordinary items	673,185	576,003
Extraordinary items:		
Recovery of income taxes on claiming expenses deferred in prior years	(24,500)	(30,000)
Adjustment of prior years' taxes on income	—	6,170
	<hr/> (24,500)	<hr/> (23,830)
Consolidated net earnings for the year	<hr/> \$ 697,685	<hr/> \$ 599,833

See accompanying notes to consolidated financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated March 14, 1969.

Highland-Bell
LIMITED
and subsidiary company
MASTODON-HIGHLAND BELL MINES LIMITED
consolidated statement of surplus

Year ended December 31, 1968 (With comparative figures for 1967)

	1968	1967
Retained earnings:		
Balance at beginning of year	\$ 460,305	339,679
Add consolidated net earnings for the year	697,685	599,833
	1,157,990	939,512
Deduct:		
Dividends paid	489,888	326,592
Litigation expenses (Note 1)	68,218	152,615
	558,106	479,207
Balance at end of year	599,884	460,305
Contributed surplus arising from premiums on shares issued	22,534	22,534
Excess of book value of shares of subsidiary company over purchase price at dates of acquisition	1,078,495	1,078,495
Total consolidated surplus at end of year	<u>\$1,700,913</u>	<u>1,561,334</u>

See accompanying notes to consolidated financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co.,
Chartered Accountants, dated March 14, 1969.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Highland-Bell Limited and its subsidiary as of December 31, 1968 and the consolidated statements of earnings, surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except for the items which have not been reflected in the consolidated financial statements as described in Note 1, these consolidated financial statements present fairly the financial position of the companies at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
March 14, 1969

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Highland-Bell

LIMITED

and subsidiary company

MASTODON-HIGHLAND BELL MINES LTD.

consolidated statement of source and application of funds

Year ended December 31, 1968 (With comparative figures for 1967)

	1968	1967
Funds provided:		
Consolidated net earnings for the year	\$ 697,685	599,833
Add charges not requiring cash expenditure, depreciation	73,484	61,965
	<hr/>	<hr/>
Gain (loss) on disposal of equipment	771,169	661,798
	14,417	(7,500)
	<hr/>	<hr/>
Funds provided from operations	756,752	669,298
Sale of machinery and equipment	24,573	2,707
Repayment (payment) of refundable corporation tax	2,113	(1,758)
Sale of land	---	1,500
	<hr/>	<hr/>
Total funds provided	783,438	671,747
Funds used:		
Dividends	489,888	326,592
Purchase of buildings, machinery and equipment	131,370	55,629
Leasehold improvements	---	13,732
Purchase of non-marketable securities	5,000	---
Investment in marketable securities	4,225	142,138
Option payment on mineral claims	500	---
Litigation expenses (Note 1)	68,218	152,615
	<hr/>	<hr/>
Total funds used	699,201	690,706
	<hr/>	<hr/>
Increase (decrease) in working capital	\$ 84,237	(18,959)
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

Subject to the accompanying report of Peat Marwick, Mitchell & Co.,
Chartered Accountants, dated March 14, 1969.

**Highland-Bell Limited and Subsidiary Company
Mastodon-Highland Bell Mines Ltd.**

Notes to Consolidated Financial Statements

December 31, 1968

1. The decision in the action brought by the subsidiary company and Leitch Gold Mines Limited (plaintiffs) in the Supreme Court of Ontario against Texas Gulf Sulphur Company (defendant) was delivered November 29, 1968. The claim of the plaintiffs for lands comprising the Kidd Creek mine or as an alternative, damages with respect to the Kidd Creek mine, was dismissed and the defendant was granted its costs in the action to November 29, 1968. The defendant was found to have committed breaches of the contract in wrongly withholding survey data and reports from the plaintiffs and wrongly acquiring other lands without first seeking the plaintiffs' consent. A reference was directed to the Master of the Supreme Court to ascertain the loss sustained by the plaintiffs as a result of these breaches of contract by the defendant. The plaintiffs are proceeding with this reference.
The costs to the defendant, which have not as yet been taxed, and unbilled legal fees of the company in connection with the litigation, together with damages which may be awarded to the company by the Master of the Supreme Court, have not been reflected in the accompanying financial statements.
2. Payments were made during the year to, or on behalf of, directors and senior officers amounting to \$61,570.

Notes

Highland-Bell
LIMITED

